Making Tax Digital & Xero

The Making Tax Digital (MTD) for VAT deadline is drawing closer. It's less than a year until UK businesses that are VAT registered and above the threshold will be required to keep their records digitally and submit VAT returns to HMRC using MTD-compatible software.

A number of areas of MTD have been delayed until earliest April 2020. However, HMRC has confirmed that Making Tax Digital for business (MTDfb) will come into effect in April 2019 starting with MTD for VAT. From 1 April 2019, VAT registered businesses that are above the VAT threshold (currently £85k) will be required to keep their records digitally and submit VAT returns to HMRC using MTD-compatible software.

Other areas of MTD such as Income tax and Corporation tax have been put on hold until April 2020 at the earliest.

MTD VAT returns using Xero

Xero customers are already able to submit VAT returns using Xero now, and Xero are currently building a whole new VAT return experience and workflow to support the changes that MTD introduces. The new connection is currently in the testing phase with HMRC to ensure it works as expected. Xero will be participating in the closed beta that HMRC are running this summer, where the first customers will submit VAT returns for MTD.

Xero's new MTD VAT will be available to customers with no upgrade fees and with as minimal impact as possible.

As it stands, there's not currently a list of MTD VAT approved software suppliers. HMRC will decide when it's appropriate to publicise a curated list of products that'll be MTD-ready.

Addressing some questions, you may have

When can we have a go at Xero's MTD VAT functionality?

HMRC has strict adoption timelines in place – for example, we understand that monthly VAT customers can't join MTD until after June 2019. HMRC also has other qualifications for adoption. HMRC will qualify who can join and when, so we'll need to rely on them to tell us who qualifies for MTD VAT beta in Xero, as well as after April 2019.

Xero will be joining HMRC's open beta once it's available later in the year.

What will be the difference between how I'm filing VAT returns with Xero now and the MTD method?

MTD VAT in Xero will be a different experience to the VAT experience in Xero today. The VAT return is the same, but for example, HMRC will provide the returns to software, rather than people choosing dates for a return themselves. Xero will also ensure you'll be able to make any required adjustments to the return before submitting to HMRC. There are other changes and

differences too, so we'll make sure you're fully up to speed as soon as we're clear on the process from HMRC.

So what should we be doing now to make sure we're ready?

If you're already using Xero to submit your VAT returns, you don't need to do anything right now. All Xero subscriptions currently supporting the submission of a VAT return will be updated for MTD VAT returns.
If you're a business above the VAT threshold, make sure you're using one a standard business subscription or Xero VAT Cashbook which is available via your Xero partner.

What else should I be aware of?

MTD for VAT is due to commence for VAT periods starting on or after 1 April 2019. So all businesses will need to comply with the new process from this date onwards. This means that many businesses will need to make a decision about their accounting software soon to avoid facing the complication of changing part way through their accounting year.
For example, a business with a 30 June 2018 year-end will need to use MTD-compatible software from 1 July 2018 to allow for the MTD requirements that will be required from April 2019.